

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO UNIVERSAL)	ADMINISTRATIVE
SERVICE AND FUNDING ISSUES)	CASE NO. 360

O R D E R

On May 22, 1998, the Commission issued an Order indicating that the operation of Kentucky's Universal Service Fund ("USF") would begin January 1, 1999. In its Order dated August 7, 1998, the Commission delayed implementation of high-cost support until July 1, 1999. However, it did retain the earlier date for implementation of the low-income portion of the USF. This Order addresses the specific issues involved in implementing low-income support, more commonly known as Lifeline, by January 1, 1999.

In its August 7, 1998 Order at pages 12-16, the Commission addressed the fund assessment mechanism and gave interested parties the opportunity to file additional comments. In addition, the Commission stated at page 15 that it would "require all telecommunications carriers to place a charge on all customers' bills as a percentage of total billed intrastate regulated revenues." In order to ascertain this percentage, all carriers were required to submit their projected 1999 annual revenues and 1999 annual Lifeline revenue requirements by October 15, 1998. Although responses were not received from all carriers, enough information was submitted to allow a reasonable estimate of the level of funding necessary to initiate the low-cost portion of the USF.

In the additional comments respondents generally focused on funding the overall USF. Most suggested that a mechanism using a percentage of revenues would be most appropriate. Generally these comments repeated earlier statements made at the June 30, 1998 informal conference, as well as comments written subsequent to the informal conference. The Commission will issue an Order addressing the overall funding mechanism at a subsequent date. Only those comments relevant to the low-income portion of the USF will be discussed herein.

BellSouth Telecommunications, Inc. ("BellSouth") in its September 8, 1998 comments states that the establishment of a percentage-based surcharge mechanism by January 1, 1999 would be problematic. BellSouth further states that the simplest assessment methodology for the Lifeline portion of the fund would be to charge a flat intrastate subscriber line charge to all incumbent local exchange carrier ("ILEC") and competitive local exchange carrier ("CLEC") customers. BellSouth also contends that implementation of the proposed flat-rated assessment prior to February could be difficult.

AT&T Communications of the South Central States, Inc. ("AT&T") in its September 8, 1998 comments supports a uniform direct end-user surcharge as a separate line item on retail phone customers' bills. BellSouth Cellular Corporation ("BSCC") states in its October 23, 1998 comments that the assessment methodology for the high-cost fund and the Lifeline fund should be uniform. In its September 17, 1998 Order, the Commission addressed BSCC's concerns and affirmed its commitment to implement the low-income portion of the USF by January 1, 1999 so that the providers,

subscribers, and administrator could gain valuable experience prior to the initiation of the high-cost portion.

After further consideration, the Commission finds that a surcharge of \$.05 (five cents) per month per access line on all ILEC, CLEC, and wireless bills is the simplest and most equitable methodology to assess the low-income portion of the USF. This amount is generally based upon an estimated fund size of 1 million dollars and approximately 2 million access lines. This line item shall be shown as "Kentucky Lifeline Support." A decision in regard to assessment methodology for the entire fund will be made at a later date, and this decision should be considered interim until such time. All ILECs, CLECs, and wireless carriers providing end-user services are required to file tariffs by December 1, 1998, with an effective date of January 1, 1999, to implement this five-cent surcharge and to modify their current Lifeline tariffs wherein a credit may be applied to eligible subscribers for up to \$10.50. Of this amount, up to \$3.50 is funded by the state and supported by the above discussed five-cent surcharge, and the remaining amount up to \$7.00 is supported by the federal USF. The Lifeline credit is to be applied only to the total of the local service charge and the federal subscriber line charge. In the event the full \$10.50 credit is not taken, any lesser amount should be prorated on the basis of two parts from the state fund to one part from the federal fund for amounts in excess of \$5.25. For example, a \$10.20 credit would be funded by a \$3.30 portion from the state fund and \$6.90 from the federal fund.

If any ILEC, CLEC, or wireless carrier is unable to comply with the dates specified in this Order, it should immediately inform the Commission, providing an explanation and suggested alternatives.

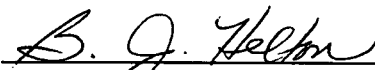
In the Commission's Order of May 22, 1998, the Commission selected the Finance and Administration Cabinet to be the Fund Administrator. All funds collected should be directed to the Finance and Administration Cabinet. The Commission's Executive Director will issue a letter no later than December 15, 1998, with specific remittance details and identifying account numbers.

The Commission, having considered the comments and having been otherwise sufficiently advised, HEREBY ORDERS that:

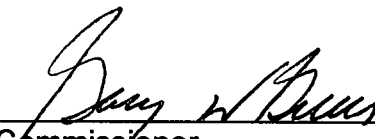
1. For services rendered on and after January 1, 1999, all ILECs, CLECs, and wireless providers shall place on all customers' bills a charge of five cents per month per bill.
2. This new five-cent charge shall be noted on the customers' bills as "Kentucky Lifeline Support."
3. Lifeline services shall be available for qualified customers in an amount up to \$10.50 per month.
4. By December 1, 1998, all ILECs, CLECs, and wireless providers shall file tariffs, to be effective January 1, 1999, to reflect the new Lifeline rate.
5. Any utility unable to meet these dates shall notify the Commisison immediately, providing an explanation and suggested alternatives to the dates provided herein.

Done at Frankfort, Kentucky, this 16th day of November, 1998.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director